

DEPARTMENT OF THE TREASURY

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For Release upon Delivery  
Expected at 11:00 a.m.  
February 27, 1996

**STATEMENT OF JOHN D. HAWKE, JR.  
UNDER SECRETARY OF THE TREASURY  
FOR DOMESTIC FINANCE  
BEFORE THE SUBCOMMITTEE ON GENERAL OVERSIGHT AND INVESTIGATIONS  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS  
U.S. HOUSE OF REPRESENTATIVES**

Good afternoon Mr. Chairman and members of the Subcommittee.

I am pleased to be here today to discuss the security of United States currency. With me are Eljay Bowron, Director of the United States Secret Service, and Theodore Allison, Assistant to the Board of the Board of Governor's of the Federal Reserve System. At Secretary Rubin's direction, I serve as chairman of the Advanced Counterfeit Deterrence Steering Committee. The ACD Steering Committee, which is an interagency committee composed of officials from the Treasury Department, Secret Service, the Bureau of Engraving and Printing, and the Federal Reserve, was established in 1982 and is responsible for the stewardship of the U.S. currency system.

Just a little more than a year and a half ago, Frank Newman, my predecessor as both Under Secretary and as Chairman of the ACD Steering Committee, appeared before the House Banking Committee

RR-895

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to discuss the introduction of a variety of new security features for U.S. currency that would represent the first significant change to our currency in more than 65 years. Today, I am pleased to be able to say that the Treasury Department has incorporated those features into a new design, and we and the Federal Reserve are now ready to introduce in the next several weeks the newly designed Series 1996 \$100 note.

In order to provide some perspective to the currency redesign effort, I will first discuss how the currency redesign fits into our counterfeit deterrence efforts. Next, I will talk about the role of U.S. currency overseas. And finally, I will provide a summary of some of the things that we have done since we last had the opportunity to discuss our counterfeit deterrence efforts before Congress.

We view the development of the newly-designed U.S. currency as a significant step forward in our two-pronged counterfeit deterrence effort. The first aspect of this effort, and what we view as our foundation, is the design of the currency. Since the inception of the Bureau of Engraving and Printing in 1862, the unique currency paper and detailed intaglio printing process has helped insure the security of our currency. In addition, the inclusion of a security thread and microprinting beginning with the Series 1990 notes increased the effectiveness of that design.

However, the rapid advancement that has taken place in recent years in reprographic technologies such as color copiers and computer scanners has dictated that we take more significant steps in order to maintain the security and integrity of U.S. currency and stay ahead of the counterfeiting threat. The changes that we have made, which include changes to the design, paper, and ink on the notes, include some of the most sophisticated and proven deterrent measures available while still maintaining the uniquely "American" look and feel of our currency.

The most noticeable design change is the larger, more detailed portrait, which has been moved slightly off-center to make room for the inclusion of a portrait watermark in the paper. Other changes include a security thread that glows red when exposed to ultraviolet light, difficult to copy fine line patterns, expanded use of microprinting, and color-shifting ink. In addition, the new design includes a variety of machine authentication features that we do not discuss publicly.

In cooperation with the Federal Reserve, we are currently implementing a global public education campaign to educate the users of our currency around the world about the redesign. It is important that those who put their trust in our currency understand the reasons for and the process behind this redesign project. Furthermore, in many areas it essential that the

rollover occur in an orderly fashion so that economic stability is not affected.

A principal focus of this effort involves assuring users of U.S. currency that there will be no recall of our currency so there is no need to rush to exchange old design bills for new. Another, perhaps more difficult focus of this effort, is the need to train cash handlers to be able to recognize and authenticate the new notes. Even though the bill will still look "American," the changes are significant. It is important that the holders and users of U.S. currency become very familiar with the new features and are able to authenticate the bills. Our best deterrent against successful counterfeiting is a public that can readily identify genuine U.S. currency.

A significant amount of resources are dedicated toward meeting our education objectives. We have staff devoted solely to this effort, and we have enlisted the support of the international advertising and public relations firm Young and Rubicam to help shape and disseminate our message. In addition, we have enlisted the support of U.S. embassies and consulates around the globe as well as the United States Information Service. Educational pamphlets and posters in 20 different languages have been printed and distributed, and training videos have been produced in 10 languages. We have placed

advertisements in both print and broadcast media, and made use of public service announcements.

This new design represents a significant improvement to the security of our currency. While we do not view this note as a counterfeit-proof bill -- in reality, there is no such thing -- we believe that the measures we are incorporating into the Series 1996 note will present a significant hurdle to both "causal counterfeiters" using advanced reprographic equipment and to the professional counterfeiters that still use more traditional printing techniques to produce counterfeits. The new note represents a significant security enhancement, but it is not the end product of our efforts. In fact, we have already begun working on the development of new features for our next generation of currency. The nature of today's high-tech world dictates that we will no longer have the luxury of waiting several decades between changes to the design of our currency.

Because of its strength and stability, and because of its stature as a de facto world currency, U.S. currency will always be a target of counterfeiters. No matter how secure the design, someone will attempt to copy it.

This brings me to the second aspect of our two-pronged counterfeit deterrence effort: enforcement. Thanks to the diligence of the Secret Service, which has been charged with the

enforcement of U.S. currency counterfeiting laws since the agency was founded during the Civil War, the vast majority of counterfeits are seized before they ever enter into circulation. In fact, it is extremely unlikely that any of us here will ever come into contact with a counterfeit U.S. currency note. The total of all counterfeit U.S. currency detected throughout the world in fiscal year 1995 amounted to less than one-tenth of one percent of currency in circulation, and the amount passed on the American public was only about 12 cents per capita.

Enforcement will play an especially important role after the introduction of the new design. For a period of time large numbers of the old design and the new design will co-circulate. Because the new design is more secure, it can be expected that the old design notes will remain a target of counterfeiters. This has led some to suggest that the Treasury should recall the old currency. The Treasury and Federal Reserve considered this idea and rejected it outright. The United States has never recalled its currency and it will not do so now. The dollar's status as a world currency makes such an option impractical and unworkable, and we believe that part of the reason people regard our currency with such esteem is because they know that the same note they hold today will still be legal tender 50 or 100 years from now.

Clearly, from a macroeconomic perspective, counterfeiting remains an economically insignificant problem. However, the Secret Service's successful record on this front derives from its zero-tolerance approach to counterfeiting. The Treasury Department and the Secret Service take all counterfeiting cases very seriously, and we pursue all counterfeit cases to insure the continued integrity of our currency.

In short, we do not view the new design as a panacea for all cases involving the counterfeiting of U.S. currency, but combined with our assiduous enforcement efforts, this measure represents another step forward in our efforts to stay ahead of the counterfeiting threat.

Before closing, I would like to briefly discuss the use of U.S. currency overseas and touch upon the efforts that we have made to better understand use of our currency outside of our borders.

As you may know, the Federal Reserve estimates that approximately two-thirds of U.S. currency circulates outside of the United States. This has important economic ramifications. All of our outstanding currency, which is in the form of noninterest-bearing Federal Reserve notes, is backed by a corresponding amount of interest-earning assets held by the Federal Reserve. Each year the Federal Reserve turns most of its

interest income over to the Treasury Department, and the amount that is accounted for by overseas currency holdings is on the order of \$15 billion per year.

In the fall of 1994, the Treasury Department and the Federal Reserve established the International Currency Awareness Program, or "ICAP." The purpose of this program is to learn more about how and why U.S. currency is used overseas, to ensure that an adequate currency distribution system is in place to facilitate the rollover into the new currency, to better determine the level of counterfeiting of U.S. currency overseas, and finally, to begin to educate foreign government, banking, and law enforcement officials about the plans to redesign U.S. currency. Since that time, joint Treasury, Secret Service, and Federal Reserve teams have visited 12 countries, four of which are major international distribution centers for U.S. currency, three that are essentially dollarized economies, and five where dollars are used to a moderate extent. In each instance, our teams met with officials from central banks, commercial banks, currency exchanges, ministries of finance, U.S. embassies, and law enforcement agencies. In most cases, we also sent follow-up teams comprised of Secret Service and Federal Reserve personnel to conduct counterfeit training seminars for local law enforcement and banking personnel, and in a few locations these teams conducted vault inspections of U.S. currency stocks. I will briefly summarize our findings.



First, we found that U.S. currency is held overseas for a variety of reasons. In many countries beset by high inflation our currency serves as a stable store of value and accepted medium of exchange as compared to the local currency, which loses its purchasing power as prices rise. In some countries, mistrust of the banking system, an underdeveloped financial system, or political instability compel people to hold their savings in cash dollars because they maintain their value and are accepted virtually anywhere in the world. Finally, some people hold U.S. currency for travel purposes or for cross border trading where U.S. currency is traded directly thus obviating the need to exchange currencies. In any case, it is the stability and universal acceptance of our currency that makes it a de facto world currency.

Second, we found that a highly competitive commercial bank wholesale currency distribution system is in place. We are confident that this system will provide for the successful rollover of the newly-designed currency throughout the world. In addition, the Federal Reserve is evaluating options that are designed to facilitate the rollover should further action be deemed necessary.

Third, and perhaps most importantly, we found that the levels of counterfeit U.S. currency detected overseas are comparable to the levels found domestically. In no instances did

we find in our discussions with local banking or law enforcement personnel alarming levels of counterfeit U.S. currency. Moreover, cash handling and law enforcement personnel in these countries were adept at identifying counterfeit notes. These findings were not only encouraging, but they also meshed with the Federal Reserve's chargeback experience. Mr. Allison will touch upon this point in greater detail, but the rates of counterfeit notes detected in foreign-origin currency deposits at the Federal Reserve have consistently been below the rates found in domestic deposits.

Another important benefit from these trips was the opportunity for the Secret Service to build upon their relationships with foreign law enforcement officials. Mr. Bowron will discuss this point in more detail, but let me just say that a large measure of the Secret Service's ability to function effectively overseas rests with the quality of its relationships with local law enforcement agencies. The ICAP program has helped to build upon these important relationships.

In summary, the evidence that we have, including extensive contacts with overseas law enforcement and banking officials, selected overseas vault inspections, and Federal Reserve chargeback data, suggests that the counterfeiting of U.S. currency remains a de minimis problem. We are confident that the steps we are taking with the current redesign will greatly

enhance the security of our currency and that this effort combined with the continued diligence of the Secret Service on the counterfeiting enforcement front will insure that U.S. currency maintains its strength and stability.